GLOBAL MARKETS, NATIONAL REGULATION, AND COOPERATION
STATEMENT BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE

by Ethiopis Tafara
Director, Office of International Affairs
U.S. Securities and Exchange Commission

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Chairman Oxley, Ranking Member Frank, and distinguished members of the Committee, thank you for inviting me to testify about the US-EU regulatory dialogue on capital markets.

A SHORT BACKGROUND TO GLOBAL SECURITIES MARKETS

I've been asked to address the history of the US-EU regulatory dialogue and its importance to the Securities and Exchange Commission today and for the future. This dialogue is the result of historic changes in the ways capital markets function and are likely to develop.

Stock markets have existed in the United States and in Europe for centuries, and American and European investors, issuers, and markets have a relationship going back throughout most of this time. Much of the capital that traded on the London, Amsterdam, Paris, New York and Philadelphia stock exchanges over the years came from foreign investors. As an example, during the second half of the nineteenth century, British and other European investors provided much of the capital needed to construct the early American railroad system – to such an extent that populists of that era occasionally complained that the British were trying to "recolonize" America through direct investments. And, of course, the shape of the United States today owes something to the Mississippi Company, a French joint-stock company founded by a Scot and drawing on investors from England, France, Genoa, Germany, and Venice.

Yet, throughout most of this period, the regulation of securities markets varied considerably. English law prohibited unchartered "stock-jobbing" after the South Sea

Bubble financial crash in 1720. From the mid-nineteenth century on, various English Company Acts imposed national-level requirements on how shares in corporations could be marketed to the public and what information about these corporations had to be disclosed to potential investors. By contrast, throughout most of the existence of Wall Street, "securities regulation" in the United States was a combination of exchange self-regulation, common law, state corporation laws and, starting with Kansas in 1911, state "blue sky" statutes.

Despite the long history of stock markets, the United States was the first country to adopt a comprehensive national approach to securities market regulation with passage of the Securities Act of 1933 (1933 Act) and the Securities Exchange Act of 1934 (1934 Act). These two statutes (along with the Public Utility Holding Company Act of 1935 and the Investment Advisers and Investment Company Acts of 1940) were passed the same time that the "international" dimension to our stock markets decreased dramatically, largely due to the Great Depression and the aftermath of the Second World War. While several other countries in the immediate post-War period followed the American example in creating their own national securities laws and in setting up their own securities markets, until relatively recently and with a few exceptions, the world's securities markets catered largely to domestic issuers. In 1986, for example, only 59 foreign issuers were listed on the New York Stock Exchange, compared with the 470 listed today. While the securities markets of a handful of countries were more "international," there was little regulatory overlap – at least from our perspective. In other words, for much of the SEC's existence, with some minor exceptions, regulation of our stock markets was mostly a local affair.

This situation is now changing. Almost all developed market jurisdictions – and even a considerable number of developing markets – have adopted forms of securities market regulation similar to our own. At the same time, capital markets are reverting to their earlier, more "global" form. The result is something unique in capital market history – a truly global capital market, such as we have had in the past, but operating in a world of extensive domestic capital market regulation.

At this point I should say that I firmly believe that the US securities laws and SEC market oversight are two of the principal reasons why our markets are as efficient and effective as they are at fueling the capital needs of our economy. These laws focus on investor protection and have created in investors a certain bedrock confidence in the integrity of our securities markets that even sizable financial scandals have not been able to entirely diminish. Of course, Congress' wisdom is evident, not just for passing the original securities laws in the 1930s, but also for rapidly reinforcing these laws and buttressing the SEC's oversight capabilities when scandals have erupted, such as with the Sarbanes-Oxley Act of 2002.

For these reasons, the US securities market remains by far the largest and most liquid in the world. And, as a practical matter, the size of our market means that rather than setting securities regulations in a vacuum, the agendas of Congress and the SEC have a worldwide impact. However, this situation is becoming more complicated.

Recent initiatives by the European Union promise to create an EU-wide capital market and a rationalized, coordinated European securities regulatory structure. These initiatives will improve the efficiency, liquidity and investor protection aspects of Europe's securities markets – developments that will benefit both US investors and issuers in the long run, by providing the former with greater investment opportunities and benefiting issuers by possibly lowering their cost of capital. However, the creation of a coordinated European securities regulatory structure also raises the possibility of real conflicts between regulatory requirements – conflicts with far-reaching extra-jurisdictional implications.

Today, both the US and the EU securities markets are too large to be ignored. Potential conflicts between the regulatory requirements of these markets can have an adverse impact on the cross-border flow of capital. Some of these conflicts may prove difficult to avoid, stemming, as they may, from differences in regulatory philosophy. Where investor protections or any other aspects of the SEC's statutory mandate are involved, the SEC has to be careful not to afford accommodations solely for a short-term improvement to efficiency in conducting cross-border investments – "short-term" because any improvements to efficiency that undermine investor confidence are likely to prove short-lived. Nonetheless, some duplicative or even contradictory regulation in this cross-border environment offers nothing in the way of investor protection and merely places an unnecessary burden on issuers, firms and investors. The SEC is committed to avoiding such situations, where possible.

We must also keep in mind that, in a global capital market, where both investors and fraudsters can move funds across borders with ease, cross-border regulatory cooperation becomes vital for any securities regulator concerned about enforcing its own regulations. The old enemies to the integrity of the global capital market remain. The globe-trotting investors of the past – the British Victorians investing in the Erie and Northern Pacific Railroads, the Parisian nobles invested in the Mississippi Company, and the numerous international investors in the South Sea Company – frequently came to financial ruin because fraudsters "[drew investors] in by the reputation, falsely raised and artfully spread, concerning the thriving state of their stock."[1] Fraud today, just as 300 years ago, recognizes no borders.

THE US AND EUROPEAN APPROACHES TO FOREIGN MARKET PARTICIPANTS

Despite the comparatively few foreign actors in our markets during the early part of the SEC's existence, the SEC has a long history of accommodating foreign issuers, investors and other market actors who wish to participate in our markets. From the very beginning, US securities laws drew few distinctions between domestic issuers, firms and investors and those based outside the United States. With that said, the SEC has also long been aware that, particularly for foreign issuers, home country laws and regulations may impose requirements that conflict with SEC rules. When this has happened in the past, and when we could do so without jeopardizing investor protection, the SEC frequently made accommodations for foreign participants in US markets to avoid direct conflicts of law. In this way, the SEC believes investors can be assured that their interactions with a foreign market participant are subject to the same regulatory oversight as those with a

[1] *Journals of the House of Commons*, 11:595 (Nov. 25, 1696), quoted in Stuart Banner's, *Anglo-American Securities Regulation: Cultural and Political Roots, 1690-1860*, 29 (Cambridge Univ. Press, 1998).

domestic market participant, and foreign and domestic issuers and firms alike can compete on a level regulatory playing field.

The EU generally has taken much the same approach to non-EU market participants – according them national treatment, for the most part, but taking into consideration home country regulations to make appropriate accommodations.

For a number of years, this approach to regulating foreign participants in our markets have served both the US and EU well. They have allowed us to make changes to our laws and regulations without creating significant conflicts between each other's laws. However, this situation changed quite suddenly when both the United States and the European Union undertook major regulatory reforms to strengthen the integrity of our markets.

MOMENT OF CHANGE

As you all well know, Congress overwhelmingly passed the Sarbanes-Oxley Act in 2002 – one of the most significant pieces of US securities legislation in the past seventy years. Sarbanes-Oxley arose out of the Enron, WorldCom and other financial scandals. The Act had a major impact on all participants in US markets, including those from abroad. In particular, foreign issuers found themselves subject to US rules that would directly impact their corporate governance – an area of regulation in which the SEC, in the past, accorded deference to home country rules.

Around the same time, the European Union began implementing its Financial Services Action Plan (FSAP), designed to create a single market in financial services throughout the EU. Forty-two legislative measures were contemplated as part of the action plan, many of which focused on securities regulation. Today, these measures are having a tremendous effect on the regulation of EU capital markets and, as with the Sarbanes-Oxley Act, have necessitated major adjustments on the part of issuers, accountants and lawyers, and regulators affected by the legislation.

It immediately became apparent to securities regulators on both sides of the Atlantic that some of these momentous changes were both extensive in their reach and not necessarily mutually compatible. It was also apparent that some of the objectives of these possibly contradictory requirements were not themselves at odds with each other. Putting aside the different legal traditions, in a few cases the substantive differences boiled down to the engineering equivalent of one side using nuts and bolts measured in English units and the other in metric units.

RATIONALE FOR THE US-EU DIALOGUE

The US-EU Dialogue was created as a forum in which to discuss these types of issues raised by the Sarbanes-Oxley Act, the EU's FSAP, and other regulatory matters since 2002. The Dialogue is led by the US Treasury Department and includes the SEC and the Federal Reserve Board on the US side, and representatives of the European Commission's Internal Market on the EU side.

The Dialogue fulfills several functions. One important function is that it has allowed us to reinforce our common ground. With respect to financial services regulation, the US and EU share the same fundamental goals – protecting investors, maintaining stability in our markets, and allowing free and unfettered competition among all market participants.

The Dialogue has also created the opportunity for the EU and US delegations to educate each other about existing laws and regulations and any changes thereto. This educative process allows us to eliminate misunderstandings that may exist or that may arise with regard to regulatory changes being considered. The discussions in the Dialogue also provide an opportunity for both sides to air any concerns about the possible impact of the changes, and to request certain adjustments to address these concerns. While such requests do not always result in action by the other side, the Dialogue allows us to explain our rationale for what we decide to do.

To date, the Dialogue has proven helpful in resolving potential problems, but it has also permitted us to learn from each other's experiences. This learning process allows us to consider possible new avenues of regulation for our own markets, which ultimately enriches the regulatory rulemaking process and helps us each to better carry out our regulatory mandates.

DIALOGUE DISCUSSIONS TO DATE

We have met in connection with the Dialogue on a number of occasions. During each occasion, representatives from the United States and European Union have discussed a number of key issues, including implementation of the Sarbanes-Oxley Act, the EU Financial Conglomerates Directive, matters regarding the presence of foreign market trading screens in the United States, and International Financial Reporting Standards.

1. Sarbanes-Oxley Act

Although the US-EU Dialogue began before the Sarbanes-Oxley Act was signed into law, implementation of the Act added new significance to the Dialogue .

Notably, the Sarbanes-Oxley Act does not differ from other US federal securities laws in treating foreign and domestic market participants the same way. However, as mentioned earlier, the US securities laws of the 1930s predate the modern capital market system. International issuers and firms, as well as regulators in other jurisdictions, largely came into existence after the more global aspects of the US regulatory structure were already firmly in place. Any conflicts between US laws and foreign laws were not as apparent as now because most market participants did not operate globally. This situation, of course, has changed.

As the SEC began to implement the Sarbanes-Oxley Act, it quickly became clear that, in some cases, implementing the provisions of the Act in a certain way could conflict directly with laws and regulations in other jurisdictions. The SEC has worked very hard to develop ways to smooth out these conflicts, consistent with the spirit and letter of the Act. These efforts have required that the SEC learn more about how markets and market participants are regulated in other jurisdictions so that we can understand how the objectives of the Act might be achieved in other jurisdictions using very different legal systems.

The Dialogue has played a key role in our developing this understanding. Through our interactions with representatives of the European Commission (EC), as well as through our contacts with representatives from other countries, the SEC learned where the potential conflicts lay while the EC learned the objectives of our proposed rules. These discussions, in turn, led us to consider modifications to our proposed rules that might avoid putting foreign market participants in the unenviable position of being asked to comply with conflicting laws, while still ensuring that our objectives were met.

One concrete example of this is the SEC's rule regarding the composition of audit committees of listed issuers. The Sarbanes-Oxley Act required the SEC to pass a rule mandating that all members of audit committees be directors who are independent of the issuer. However, we discovered that the corporate governance laws and regulations in countries such as Germany with a dual board structure require the supervisory board, which is charged with auditor oversight, to include a representative of the labor force, under the theory that non-management employees of a company have a deep interest in ensuring that the interests of corporate managers are aligned with those of the company and the employees. Yet SEC rules do not consider employees of an issuer "independent" for fear that employees appointed to the board would be beholden to the company's management.

The US-EU Dialogue helped inform the view at the SEC that in the dual board system, the mandatory labor representatives on the supervisory board are rank and file employees and are quite effectively independent of the company's management. Accordingly, at the end of the SEC's notice and comment period, the final rule relating to audit committees contained an exception that would allow employees who are not officers of a company to sit on the foreign issuer's audit committee. This allows German companies listed in the US to comply both with US and German law. In addition, the change preserved the intent of the Sarbanes-Oxley Act, which was to ensure that independent directors can communicate directly with auditors without interference by management.

I would note that, this past March, the European Commission issued a draft directive that, if enacted, would require the establishment of audit committees comprising non-executives on all EU-listed companies. This Directive echoes the concerns behind the audit committee requirements of the Sarbanes-Oxley Act and is a good example of how the United States and European Union may approach similar problems from different directions, but still agree about the substance of what needs to be accomplished.

2. The EU Financial Conglomerates Directive

Despite the accommodations made by the SEC in the implementation of the Sarbanes-Oxley Act, one of the criticisms made by the EU and individual countries has been that the Act has limited their flexibility with respect to their own future regulatory actions. These critics claim they may have to follow the US model to avoid creating new conflicts with Sarbanes-Oxley for their own issuers or investment firms accessing the US market. To a certain extent, of course, this may be true – as it has always been. But the cross-border impact of new securities regulation travels both ways, as the SEC has also had to respond to legislative initiatives in the European Union. When this happens, as it recently has, the Dialogue allows both sides to consider any future regulatory actions, and gives both sides advance warning to make any regulatory adjustments that are appropriate in light of actions about to be taken by the other side.

One such example, where the Dialogue has played an important role in coordinating such adjustments, has been the EU Financial Conglomerates Directive (FCD). This Directive already has had significant spillover effects on US securities regulations by requiring that non-EU holding companies of financial firms operating in the EU be subject to consolidated supervision – in other words, the domestic and foreign banking, insurance, securities and derivatives operations of a large financial conglomerate will have to be overseen by a single regulator to help ensure that financial difficulties of one function or subsidiary do not adversely impact the entire firm. The Directive states that consolidated supervision may be carried out by a regulator in the holding company's home country, but the supervision nonetheless must be "equivalent" to that carried out in the EU.

This Directive was of great concern to many US investment banks with operations in Europe. If the SEC's regulation of these banks were not considered equivalent to the requirements of the Financial Conglomerates Directive, US investment banks in the EU would face alternative and more expensive regulatory treatment. To remove any ambiguity about its regulations, the SEC recently finalized two rules to establish a consolidated supervision regime for investment bank holding companies. For years, the SEC has evaluated the activities and management of affiliates as part of our overall assessment of the financial health of investment banks. The new rules formalize and strengthen the SEC's role as a consolidated supervisor and allow certain investment banks to use state-of-the-art risk modeling tools to determine capital charges. The SEC had been considering such changes for quite some time, and the Dialogue helped enable us to make these regulatory reforms in ways more compatible with what the EU was itself contemplating.

As the EU went through the process of proposing, amending, and finalizing the Directive, we discussed its implications on US broker-dealers in the US-EU Dialogue. SEC staff also provided detailed explanations of the SEC’s form of oversight to EU regulators and policymakers. We have every expectation that the European Commission and EU member states will find our regime to be equivalent to the FCD. We also have every expectation that the implementation of both the EU’s Directive and the SEC’s consolidated supervision rules will prove to be a step forward for prudential regulation of large, complex financial groups, to the benefit of markets and investors.

As a related matter, and as a result of the Directive and the new SEC rules, over the next several years several US investment banks likely will begin to perform capital calculations consistent with the New Basel Capital Accord. The US investment banking community has raised thoughtful comments with respect to the application of these standards to investment banks, pointing out that doing so might have unintended effects, given the differences between investment bank and commercial bank business models. A working group comprising members of the Basel Committee and the International Organization of Securities Commissions (IOSCO) has been formed to work through these issues. We are also in complementary discussions with the European Commission as it considers amendments to its Capital Adequacy Directive.

3. Foreign Trading Screens

Another current topic of discussion in the US-EU Dialogue is the issue of locating foreign stock exchange trading screens in the United States without first registering with the SEC. Several EU stock exchanges have asked for an exemption from SEC registration requirements in order to place computer trading screens in the United States. Doing so would give these exchanges – and the issuers on these exchanges – direct access to US investors. Currently, US federal securities laws generally require all exchanges operating in the United States, and all securities traded on those exchanges, to be registered with the SEC. The EU exchanges argue that, because they are regulated elsewhere, these exchanges and issuers should not be subject to the regulation and disclosure requirements of the 1933 and 1934 Acts and the Sarbanes-Oxley Act.

The Dialogue has proven useful in improving our understanding of each other's points of view on this issue. The SEC has used the Dialogue to describe for our European colleagues the statutory basis of US registration requirements and the investor protection concerns that lay behind them. We have also noted that there are certain fairness concerns if foreign exchanges are not subject to the same registration requirements as are US stock exchanges. At the same time, we have sought to garner an understanding of the differences and similarities in the regulation of exchanges as practiced in the United States and the European Union.

Consideration of the issue of screen placement was deferred after Chairman Donaldson's announcement last year that the SEC was undertaking a comprehensive review of the US market structure. Depending on the results of the review, all exchanges operating in the United States, whether domestic or foreign, could be subject to a changed regulatory landscape. Accordingly, the review needs to be completed before the issue can be considered further. We will continue to update our European counterparts in the Dialogue about the progress of the market structure review.

4. International Financial Reporting Standards

As part of the Dialogue, the EU has also raised the question of whether the SEC will accept financial statements prepared according to International Financial Reporting Standards, or IFRS, without requiring their reconciliation to US Generally Accepted Accounting Principles (GAAP). This request arises because most EU public companies will be required to adopt IFRS beginning in 2005. The SEC requires that issuers using any body of accounting standards other than US GAAP, including IFRS, reconcile those figures to US GAAP so that investors in the United States can compare these figures to those of other US-listed companies. However, such reconciliation can be expensive.

As we have explained in the Dialogue and elsewhere, there are a number of issues to be resolved before the SEC would be willing to allow *all* IFRS to be used in US financial disclosure statements without reconciliation.[2] For example, we believe it is necessary to show IFRS can be consistently interpreted, applied and enforced by those jurisdictions requiring their use. This means that accountants and auditors must be trained to use the standards; companies must incorporate IFRS into their accounts; and regulators must learn to oversee the use of the standards. In addition, the standards themselves must address the full range of accounting issues. Currently, there remain serious disagreements within the European Union over how IFRS should account for such important financial products as derivatives. The SEC's Office of Chief Accountant is working hard with the EU as well as various multilateral bodies and standard setters to address these and other issues and lay the groundwork for a time when IFRS can be accepted without reconciliation.

Since this issue was first raised in the Dialogue, we have moved beyond discussions of accepting IFRS without reconciliation to an even more interesting prospect – the possibility of converging US GAAP and IFRS. True convergence would eliminate the need for reconciliation of accounting standards either in the US or the EU. This would greatly add to the transparency of financial reporting by global issuers in all markets that

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[2] The SEC permits three IFRS to be used without reconciliation to US GAAP, although two of the IFRS generally are not used.

adopt IFRS. Upward convergence would enhance investor protection in the United States, Europe and all other jurisdictions that adopt IFRS, as investors would be able to make easy comparisons of companies in all of these markets. The increased transparency would also assist regulators in carrying out their oversight.

The work to converge US GAAP and IFRS is already underway. In October 2002, the Financial Accounting Standards Board (FASB), the US accounting standards-setter, and the International Accounting Standards Board (IASB), the IFRS standard setter, announced a project to eliminate the principal differences between US GAAP and IFRS. This project is supported by Commissioners as well as the SEC staff. The IASB and the FASB have already proposed changes to certain standards to bring them closer together.

As we have learned through the US-EU Dialogue, both the SEC and the European Commission believe that convergence of accounting standards would be valuable. I believe that we also agree that, in order for convergence to occur, the standard-setting bodies working on convergence must be independent and must have transparent processes for developing standards. Such processes would necessarily include a mechanism for collecting and taking into account the views of the users of the standards. The IASB, which was created in 2001, is working hard to live up to these requirements.

Although it is still early in the process, I am hopeful that the IASB-FASB convergence project will prove to be an example for future convergence discussions as part of the Dialogue. Indeed, the Dialogue may be able to produce the greatest good for both US and EU markets if our discussions lead to similar upwardly-converged approaches to other regulations. This would lower the transaction costs for market participants currently dealing with the varying regulatory requirements of all the jurisdictions in which they operate, while also promoting the highest standards for investor protection

THE FUTURE OF THE US-EU DIALOGUES

Through the Dialogue, we have discovered that the SEC and the European Commission are examining many of the same regulatory issues, in many cases highlighted by very similar financial scandals in both our markets. As we consider whether to introduce regulation in new areas, or to strengthen existing regulation and enforcement, the Dialogue has proven to be an effective forum for exploring new ideas and approaches. It has also allowed us to avoid unnecessary regulatory conflicts when developing our respective policies.

Going forward, other areas of cooperation between the SEC and the European Union will also begin to play a prominent role in the overall regulatory discussion between the United States and EU. I expect that future discussions likely will address the development of a cooperative framework between the SEC and the Committee of European Securities Regulators (CESR) , which comprises securities regulators from all EU member states. In addition, I anticipate that we will work on ways to continue to cooperate on enforcement matters, both between the SEC and the national securities regulators within the EU and between the SEC and EU regulators and other financial authorities.

1. SEC-CESR Cooperative Framework

In addition to the US-EU Dialogue, which involves several US financial regulators and representatives of the European Commission, the SEC is working more closely with its direct counterparts in the EU. In January, Chairman Donaldson asked me to develop a framework for cooperation and collaboration with the Committee of European Securities Regulators. CESR provides the European Commission with technical advice as the EC develops new EU-wide securities regulation, and it plays a key role in implementing EC Directives. CESR also helps ensure consistent application of these directives throughout Europe. In terms of the nuts-and-bolts of day-to-day securities market oversight, the constituent members of CESR are the SEC's direct European counterparts.

The SEC-CESR dialogue will have two goals. The first will be to discuss emerging regulatory risks that we see developing in our markets, and thus create something of an early-warning system about potential problems on the horizon. Through these discussions, we hope to improve our ability to anticipate problems and take corrective action before they occur, rather than only responding reactively by punishing wrongdoers and attempting to compensate the victims of financial fraud as far as possible.

The second purpose of the SEC-CESR framework will be to discuss emerging regulatory issues in order to achieve converged, or at least not incompatible, regulatory approaches. In this area, the SEC-CESR cooperative framework will complement the US-EU Dialogue by focusing on the technical details of securities regulation rather than on broader policies. As I mentioned earlier, the US-EU Dialogue has highlighted the fact that even where no substantive policy disagreements exist between us and our European counterparts, as is frequently the case, implementing these policies through written rules and regulations can lead to conflicting requirements. The SEC-CESR discussions will help avoid that problem.

The first SEC-EU meeting under the auspices of the new SEC-CESR cooperative framework took place last March between SEC staff and members of CESR-Fin, a sub-committee of CESR that works on accounting issues. A future topic of discussion under the framework may be the US market structure review and the EU's Investment Services Directive, now known as the Financial Instruments Markets Directive. Both the US and the EU are examining market regulation issues, such as how trades are routed to exchanges and the disclosure requirements for those trades. This could prove to be a fruitful area for future discussion for the purpose of achieving more converged approaches.

2. Enforcement cooperation

The SEC's mandate to protect investors requires that it vigorously enforce all US securities laws and regulations. In fulfilling this mandate, the SEC has a long history of cooperating extensively with foreign securities regulators and law enforcement agencies, including those from the EU. In just one recent example widely covered by the media, the SEC has worked closely with the Italian securities regulator (the Commissione Nazionale per le Società e la Borsa, or "CONSOB") and certain Italian prosecutors' offices in an investigation into matters surrounding the collapse of Parmalat SpA.

As this is an ongoing investigation, I cannot comment further on the case. I can, however, discuss more generally the SEC's approach to international cooperation in enforcement matters. In 1988, Congress strengthened the SEC's authority to obtain and share enforcement-related information with other securities regulators and law enforcement agencies. The SEC has worked diligently over the past 16 years to develop relationships with our foreign counterparts so that we could more effectively do just that. We have negotiated bilateral Memoranda of Understanding (MOUs) with more than 30 of our foreign counterparts, by which we have set forth the terms and conditions for sharing information with each other. In many SEC investigations that involve an overseas component – for example, investigations involving foreign entities, or where evidence or defrauded investors are located abroad – the Commission staff works hand-in-hand with securities regulators and law enforcement agencies in those other countries. Similarly, our foreign counterparts seek the assistance of the SEC on a regular basis to obtain evidence located in the United States.

More recently, we have also worked through multilateral organizations to strengthen cross-border assistance in investigations of securities law violations. Because of the existence and effectiveness of these other fora (in which the European Commission is also represented) enforcement cooperation has not yet needed to be a subject of discussion under the Dialogue. However, individual EU members continue to play a major role in encouraging and developing improved mechanisms by which securities regulators can assist each other in enforcement investigations. A significant milestone in multilateral cooperation occurred in 2002, when the members of the International Organization of Securities Commissions (IOSCO)[3] negotiated a Multilateral MOU on regulatory cooperation and information sharing. The IOSCO subcommittee that spearheaded the development of this agreement included the chairmen of most EU securities regulators and was led by Michel Prada, Chairman of the French securities authority.

[3] IOSCO, comprising over 100 securities regulators from around the world, is a body that sets principles and standards for international securities regulation and cooperation.

Through the Multilateral MOU, world securities regulators have reached broad consensus on what is required of regulators to be considered responsible members of the international regulatory community. In order to sign the Multilateral MOU, a country must be able to provide a certain level of assistance to its counterparts abroad, including bank account records and brokerage records. The IOSCO Multilateral MOU on enforcement cooperation and information sharing now has 24 signatories, including the US, with more added every few months. Several of the most recent signatories only just received the legal authority required by the MOU. Their legislatures granted such legal authority precisely because the Multilateral MOU is such a powerful statement of what the international community believes is needed of securities regulators in today's global environment. I believe that the Multilateral MOU will prove to benefit the SEC's enforcement program and those of all other signatories significantly.

Another multilateral organization in which SEC staff participates is the Financial Action Task Force, or FATF. FATF, founded in 1989, is an inter-governmental body comprising members from 31 countries dedicated to developing policies to combat money laundering and terrorist financing. In FATF, we work closely with EU and other counterparts to establish principles and standards for regulations to prevent money laundering and terrorist financing, taking into account cross-border business flows. The US delegation to FATF includes representatives from the US Treasury Department, the Department of Justice, and the State Department, as well as the Federal Reserve Board and the SEC. Delegations from other countries have a similar composition. This combination of different areas of expertise positions the FATF to address the multifaceted concerns that arise when preventing money laundering and terrorist access to financing. It also may make this organization best suited to address the anti-money laundering and anti-terrorist issues facing the United States and European Union.

CONCLUSION

The US-EU Dialogue is a key element in a web of connections between the US and EU policy-making community. It serves the important function of providing a forum for developing greater understanding of each other's approaches; for airing out concerns about actions that either the US or EU has taken with respect to financial services regulation; and ultimately will help us achieve more converged regulations relating to financial services.

Of course, one point we should keep in mind in this brave new world of convergence and regulatory dialogue is that now, and in the future, different regulations and decisions made by the SEC, by the European Commission, and by securities regulators around the world, reflect not just different approaches to similar problems, but also deliberate policy choices. It may not always be feasible to harmonize or converge these differences away. Nonetheless, we should, where possible, work to minimize conflicts between them. I believe the US-EU Dialogue will lead to better securities regulation in the United States and the European Union and, in the long run, better protection and choices for investors.